

A REPORT
TO THE
ARIZONA LEGISLATURE

Accounting Services Division

Compliance Review

Elfrida Elementary School District No. 12

Year Ended June 30, 2005



Debra K. Davenport
Auditor General

The **Auditor General** is appointed by the Joint Legislative Audit Committee, a bipartisan committee composed of five senators and five representatives. Her mission is to provide independent and impartial information and specific recommendations to improve the operations of state and local government entities. To this end, she provides financial audits and accounting services to the State and political subdivisions, investigates possible misuse of public monies, and conducts performance audits of school districts, state agencies, and the programs they administer.

Accounting Services Division Staff

Gregg Rickert, Manager and Contact Person
grickert@azauditor.gov

Roger Walter
Barbara Tanner

Copies of the Auditor General's reports are free.
You may request them by contacting us at:

Office of the Auditor General
2910 N. 44th Street, Suite 410 • Phoenix, AZ 85018 • (602) 553-0333

Additionally, many of our reports can be found in electronic format at:

www.azauditor.gov



DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

March 15, 2007

Governing Board
Elfrida Elementary School District No. 12
P.O. Box 328
Elfrida, AZ 85610-0328

Members of the Board:

We have reviewed the District's audit reports for the years ended June 30, 2004 and 2005, and Uniform System of Financial Records (USFR) Compliance Questionnaire for the year ended June 30, 2005, prepared by Lorenzo & Backlund, PLC to determine whether the District substantially complied with the USFR.

As a result of our review, we noted significant deficiencies in internal controls that indicate the District had not complied with the USFR. District management should implement the recommendations we have described in this report within 90 days after the date of this letter. We have communicated specific details for all deficiencies to management for correction.

During the 90-day period, the District may request a meeting to discuss these recommendations with my Office and the Arizona Department of Education by calling Magdalene Haggerty, Accounting Services Director, or Gregg Rickert, Accounting Services Manager.

A member of my staff will call the Business Manager in several weeks to discuss the District's action to implement these recommendations. After the 90-day period, my staff will schedule an on-site review of the District's internal controls to determine whether the District is in substantial compliance with the USFR. Our review will cover the deficiencies we have communicated to management as well as any other internal control deficiencies we are aware of at the time of our review.

Sincerely,

Debra K. Davenport
Auditor General

TABLE OF CONTENTS



Introduction	1
Recommendation 1: The District's controls over student activities monies should be strengthened	2
Recommendation 2: The District should strengthen controls over competitive purchasing and expenditures	3
Recommendation 3: The District should ensure the accuracy of its student attendance records	4
Recommendation 4: The District should maintain an accurate and complete capital assets list	5
Recommendation 5: The District should maintain and report accurate financial information	5

INTRODUCTION

Elfrida Elementary School District No. 12 is accountable to its students, their parents, and the local community for the quality of education provided. The District is also financially accountable to taxpayers for over \$1.3 million it received in fiscal year 2005 to provide this education.

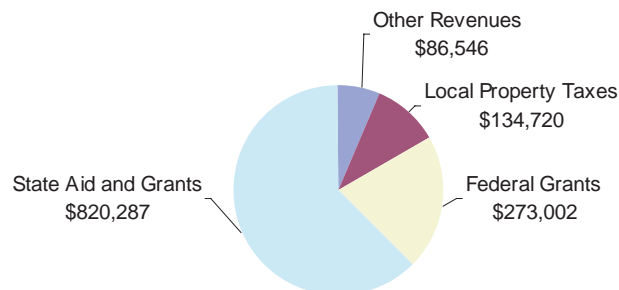
The District should use effective internal controls to demonstrate responsible stewardship for the tax dollars it receives. These controls are set forth in the *Uniform System of Financial Records* (USFR), a joint publication of the Office of the Auditor General and the Arizona Department of Education (ADE). The policies and procedures in the USFR incorporate finance-related state and federal laws and regulations and generally accepted accounting principles applicable to school districts. Districts are legally obligated to comply with USFR requirements, and doing so is good business practice.

As a result of our review of the District's audit reports and USFR Compliance Questionnaire for the year ended June 30, 2005, we determined that the District had failed to comply with the USFR. We noted certain deficiencies in controls that the District's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate financial stewardship and to comply with the USFR. Our recommendations are described on the following pages.

District Facts Fiscal Year 2005

County: Cochise
Number of Schools: 1

Number of Students: 172
Grade Levels: K-8



Source: *Annual Report of the Arizona Superintendent of Public Instruction for Fiscal Year 2004-05 and Elfrida Elementary School District No. 12 Financial Statements and Independent Auditor's Report and Report on Internal Control Over Financial Reporting and on Compliance and Other Matters for the Year Ended June 30, 2005.*

The District's controls over student activities monies should be strengthened

Poor cash controls left student monies susceptible to loss, theft, or misuse.

The District holds student activities monies raised through students' efforts for safekeeping. Therefore, the District has a fiduciary responsibility to ensure that these monies are not misused, lost, or stolen. The Governing Board is responsible for establishing oversight for these monies to ensure that proper procedures are followed for collecting and spending them. However, proper oversight was not established. Specifically, the District did not prepare reports that reconciled sales to cash collected for student activities events and did not deposit cash receipts timely. Also, the District's Governing Board did not appoint a student activities treasurer or authorize signers for the student activities bank account. In addition, the District did not have procedures in place to document the authorization of student activities disbursements. Further, the District did not reconcile its student activities bank account and did not submit a report of student activities cash receipts, disbursements, transfers, and cash balances to the Governing Board monthly.

Recommendations

To help strengthen controls over student activities cash receipts and disbursements, the District should establish the following procedures and policies:

- Prepare cash collection or activity reports to document and reconcile cash collections and tickets or items sold for student activities events. If it is not practical to sell tickets or count items before and after the sale, such as for bake sales, student clubs should still prepare cash collection reports to document cash collected.
- Deposit cash receipts intact daily, when significant, or at least weekly.
- Appoint a student activities treasurer and one other individual as authorized signers for the student activities bank account.
- Prepare prenumbered and numerically controlled checks that are signed by the student activities treasurer or an assistant student activities treasurer and one other individual appointed by the Governing Board for disbursements.
- Have disbursements authorized by or on behalf of the student members of the particular club and ensure cash is available in a student club before a disbursement is made.

A sample form to record cash collections and reconcile sales to cash collected can be found on USFR page X-H-21.

- Prepare complete and accurate monthly written bank reconciliations for the student activities bank account to reconcile bank and checkbook balances. Bank reconciliations should be prepared by an employee not responsible for handling cash or issuing checks.
- Prepare a monthly report of student activities cash receipts, disbursements, transfers, and cash balances, and submit it to the Governing Board in a timely manner.

The District should strengthen controls over competitive purchasing and expenditures

School District Procurement Rules for competitive sealed bidding and USFR guidelines for purchases below the competitive sealed bid threshold promote open and fair competition among vendors. This helps ensure that districts receive the best possible value for the public monies they spend. However, the District did not always obtain oral or written price quotations for purchases requiring them. Also, the District did not always analyze the known requirements for an item or collection of items that, in the aggregate, may have required the District to follow competitive purchasing requirements. Further, the District overpaid several employees, including overpayments from Classroom Site Fund 011 monies.

The District did not always follow competitive purchasing requirements, and therefore, could not ensure it received the best value for the public monies it spent.

Recommendations

To strengthen controls over competitive purchasing and expenditures, the District should:

- Analyze the estimated quantities and costs for an item or collection of items that, in the aggregate, may result in purchases above the applicable competitive purchasing threshold.
- Obtain oral price quotations from at least three vendors for purchases estimated to cost between \$5,000 and \$15,000, and written price quotations from three or more vendors for purchases estimated to cost between \$15,000 and \$33,689.
- The District should attempt to recover overpayments to employees and ensure that payments to employees are based on approved contract amounts and payment schedules.

USFR guidelines require:

- Oral price quotations for purchases between \$5,000 and \$15,000.
- Written price quotations for purchases between \$15,000 and \$33,689.

The District should ensure the accuracy of its student attendance records

The State provides funding to school districts based on average daily membership and attendance. In turn, the State requires school districts to maintain accurate attendance records to ensure the District receives the appropriate amount of state aid and local property taxes. However, the District did not accomplish this objective.

The District may not have received the correct amount of state aid as it did not report partial-day absences.

Specifically, the District did not calculate or record partial-day absences for kindergarten, elementary, and junior high students. In addition, the District was unable to provide a 40th- and 100th-day attendance report from its computerized attendance system; therefore, the audit firm could not determine if the membership and absence information reported to ADE agreed to the computerized attendance system records.

Recommendations

To help ensure the District receives the correct amount of state and local funding, the District should:

- Record kindergarten students, with total instruction time between 346 and 692 hours per year, as absent if in attendance for less than 3/4 of the day.
- Record attendance for students enrolled in first through eighth grades, if attendance is based on half-days, as follows:
 - Attendance of at least 3/4 of the instructional time scheduled for the day should be counted as a full day of attendance.
 - Attendance for at least 1/2, but less than 3/4, of the instructional time scheduled for the day should be counted as a half-day of attendance.
- Membership and absences reported to ADE should agree with the District's computerized attendance records.

ADE provides guidance for attendance-reporting requirements in its *Instructions for Required Reports*.

The District should maintain an accurate and complete capital assets list

The District has invested a significant amount of money in its capital assets, which consist of land, buildings, and equipment. In order to protect its investment, the District should have an accurate list of these assets to ensure they are accounted for properly. However, the District's capital assets list was incomplete and did not always include all required information. Also, the District did not reconcile the results of its physical inventory of equipment to its capital assets and stewardship lists.

The District did not protect its investment in capital assets since it did not have a complete and accurate capital assets list.

Recommendations

The following procedures can help the District ensure that its assets are adequately accounted for and controlled:

- Maintain a complete capital assets list of all items costing \$5,000 or more with useful lives of 1 year or more.
- Include all required information for each item on the capital assets list.
- Perform a physical inventory of all equipment and vehicles at least every 3 years and reconcile the results of the inventory with the capital assets and stewardship lists.

The capital assets list should include the information described on USFR pages VI-E-2 and 3.

The District should maintain and report accurate financial information

The District's Governing Board depends on accurate information to fulfill its oversight responsibility. The District should also report accurate information to the public and agencies from which it receives funding. To achieve this objective, management should ensure that its accounting records are accurate and complete. However, the District did not fully accomplish this objective. Specifically, the District did not ensure that journal entries were properly approved. Also, the District's actual expenditure amounts reported on its annual financial report (AFR) did not always agree to the District's accounting records. In addition, the transportation amounts and student counts reported on the District's expenditure budget work sheets did not agree with

the prior year's ADE reports. Further, the District did not always have intergovernmental agreements (IGAs) approved in writing by an attorney.

Recommendations

The following policies and procedures can help the District maintain and report accurate financial information:

- Require a supervisor to review and approve journal entries before they are posted to the accounting records. Retain documentation for all journal entries, including evidence of approval.
- Update accounting records for all revenues and expenditures before preparing the AFR. Once prepared, have a second employee verify that amounts reported on the AFR agree to the District's accounting records before it is submitted to ADE.
- Obtain transportation amounts and student counts for the expenditure budget work sheets from prior year's ADE reports.
- Require that all IGAs are approved in writing by a District attorney or the County Attorney.